Comments for the Record

House Ways and Means Committee

Subcommittee on Oversight

Hearing on New IRS Paid Tax Return Preparer Program
Thursday, July 28, 2011, 9:30 AM

By Michael G. Bindner
Center for Fiscal Equity

Chairman Boustany and Ranking Member Lewis, the Center for Fiscal Equity applauds the efforts by the IRS to improve tax compliance and assist taxpayers, however we must comment that these efforts are treating the wrong disease. For too many families, the requirement to complete income tax forms is an unnecessary burden. There are simply other ways to channel needed income security assistance to working families and exempting middle class retirees from taxation.

The Center for Fiscal Equity has a four-part proposal to replace the current system with one that will keep most employees from having to file taxes without abandoning the benefits of progressive income taxation for higher income families. The key elements are

- Value Added Taxes (VAT) to fund domestic military and civil spending;

- VAT-like Net Business Receipts taxes to fund non-Old Age and Survivors(OASI) entitlement spending and to provide a vehicle for both tax benefits, such as a consolidated Child Tax Credit and the continuation of the health care exclusion, as well as any state-level efforts to shift entitlement funding to tax benefit funding (ex. public and private charter schools);

- OASI taxes to allow an income-sensitive benefit based on the employee tax, but with the employer tax credited as an average to move redistribution to the collection end and an increase to the income cap to improve solvency and benefits, possibly in exchange for limited personal accounts invested in insured employee-ownership (rather than in Wall Street assets where they have little control or influence); and

- Income surtaxes, to include distributions from inheritance, to assure period based system progressivity and to fund overseas, naval sea and strategic military spending, net interest on the debt, repayment of the OASI trust fund and any transition costs to personal retirement accounts.

As the committee can easily see, the adoption of a VAT and an NBRT would eliminate the need for most families to file taxes, while not appreciably increasing the requirements on business over and above what is required now – although some firms will continue to use the services of financial service professionals or require the use of in-house resources, which they would likely require anyway to meet their other fiduciary responsibilities to shareholders, lenders or customers. Personal accounts funding employee ownership would also move this source of saving from the public sector to direct investment in and employee control of the workplace (with employees rather than business owners making the decisions on alternative funding of services under the NBRT).

Fixing the payment of net interest, strategic and overseas military spending and debt repayment to the income surtax provides an incentive to run a budget surplus and decrease military adventurism in order to reduce or eliminate this tax in the long term.

The ability to incur a large debt came not from the ability to levy taxes generally, but to tax higher income individuals, since doing so impacts savings more than consumption and thus does not directly decrease economic activity. Increasing taxes on high income individuals is actually a job saver because it removes the incentive for business owners and employees to decrease worker wages in the name of productivity (without making operations more efficient). Such faux productivity gains decrease economic growth, because without exploitive credit terms, workers cannot afford the goods they produce.

Finally, higher taxes on the savings sector may serve to prevent asset price inflation, which results when too many dollars chase too few sound investment opportunities. History shows that most asset bubbles follow immediately from the savings sector having too much money. Until employee-ownership replaces speculation in funding investment in plant and equipment, some form of progressive income taxation is essential to keep the economy from overheating.

Contact Sheet

Michael Bindner
Center for Fiscal Equity
4 Canterbury Square, Suite 302
Alexandria, Virginia 22304
571-334-6507
iowafiscalequity@verizon.net

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